News from:

COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO PROJECTS $195.9-MILLION SURPLUS FOLLOWING NEWLY ENACTED BUDGET LEGISLATION

Comptroller Kevin Lembo today announced that the state is on track to close Fiscal Year 2019 with a surplus of $195.9 million, a decrease of $505 million from last month's estimate due to newly enacted budget legislation.

In a letter to Gov. Ned Lamont, Lembo said that his latest projection is in line with the state Office of Policy and Management's (OPM) latest report, which accounts for two provisions of the recently adopted budget that relies on $540 million in FY 2019 resources. Lembo said the budget act will use $380.9 million to establish a special capital reserve fund for the Teachers' Retirement System and $160 million to be used for a comprehensive hospital settlement.

Lembo said that, while the state has marked the beginning of a new fiscal year (2020), year-end adjustments are still being processed for Fiscal Year 2019 – and so this office will provide its preliminary operating results for Fiscal Year 2019 on Sept. 30 and the final audited report at the end of December.

Lembo said that, despite the decreased surplus related to budgetary actions, state tax revenue actually saw a net increase this month due to increased income tax collections by $60 million in total ($20 million from withholding receipts and $40 million from estimated and finals payments). The increased estimated and final payments revenue will go directly to the Budget Reserve Fund. Lembo, who successfully advocated for strong Budget Reserve Fund legislation in recent years, urged for continued discipline in rebuilding the Budget Reserve Fund.

"If our state can keep to this promise, and maintain financial discipline, then Connecticut could be on the verge of a new day of fiscal stability and public trust," Lembo said. "In the past, when economic downturns struck, state government was unprepared and had to make difficult policy choices in the midst of a crisis. The state was forced to raise taxes and cut spending at the worst possible time – just when the need for essential state services was growing. Connecticut cannot control financial markets, federal trade policy and global uncertainty – but our state can control how we prepare for those factors and protect against the devastation of economic recessions."

The Budget Reserve Fund legislation that Lembo advocated for, also referred to as the revenue volatility cap, requires that revenues above a certain threshold be transferred to the Budget Reserve Fund. The status of that policy is:

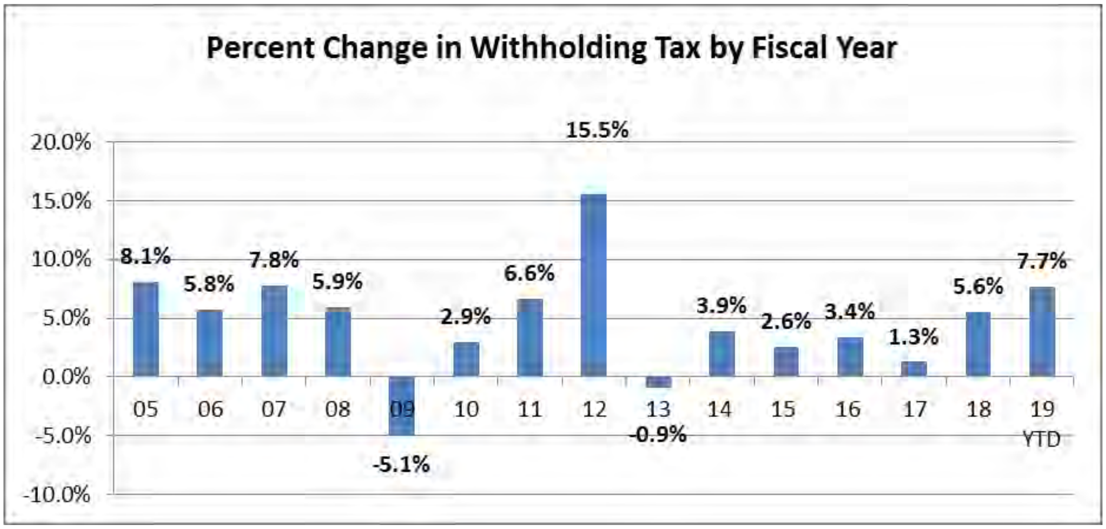
- For Fiscal 2019, the volatility cap is $3.2 billion for estimated and final income tax payments and revenue from the Pass-through Entity tax.
- If current projections are realized, a $940.5 million volatility transfer would be made to the Budget Reserve Fund.
- The current balance of the Budget Reserve Fund is $1.2 billion. Adding the estimated $940.5 million volatility transfer and the remaining projected Fiscal Year 2019 surplus of $195.9 million would bring the year-end balance of the Budget Reserve Fund to just over $2.3 billion. This would represent approximately 12 percent of net General Fund appropriations for Fiscal year 2020.

"In order to help protect against future economic downturns, Connecticut must maintain financial discipline and continue building the BRF balance to the statutory target of 15 percent," Lembo said. "Connecticut's budget results are ultimately dependent upon the performance of the national and state economies."

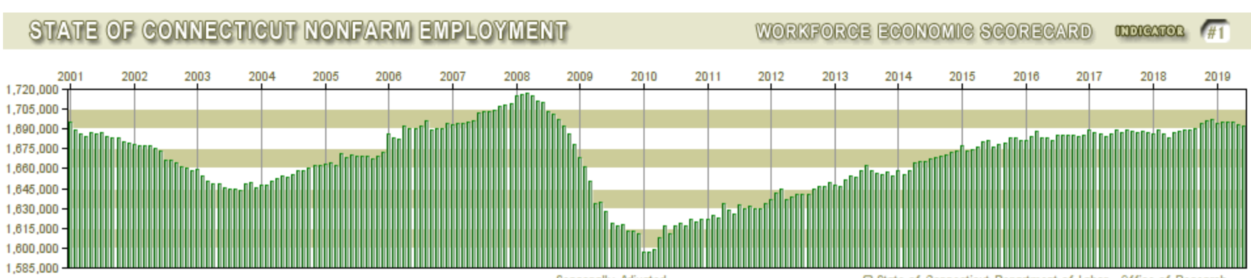
Lembo pointed to recent economic indicators and trends from national and state sources that show:

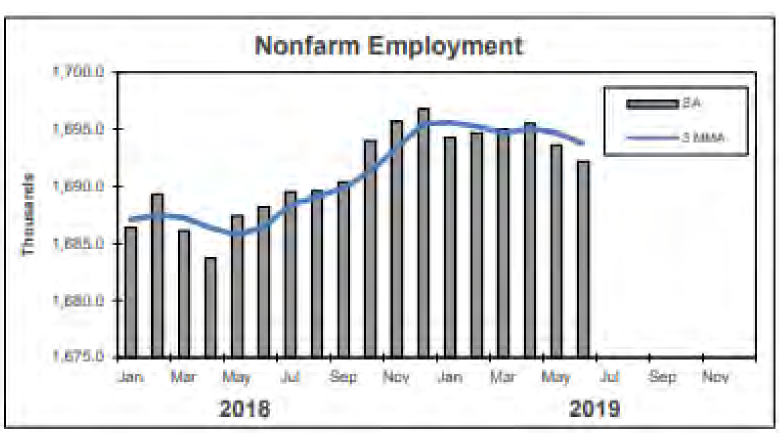
Employment

- After a solid performance in FY 2018, preliminary results for FY 2019 through June 2019 show withholding receipts grew by a strong 7.7 percent compared with the corresponding period in the prior fiscal year. This is especially significant because the withholding portion of the income tax is the largest single General Fund revenue source. Unaudited final results for FY 2019 will be available Sept. 30, after statutory year-end tax accrual adjustments are made.



- Current estimates have the withholding portion of the income tax growing by approximately 7.3 percent over FY 2018 realized amounts. Withholding collections to date, therefore, are slightly above these projected levels. However, this more conservative approach is warranted in light of the overall net employment losses reported in the first six months of calendar 2019.
- On July 18, Connecticut Department of Labor (DOL) reported the preliminary Connecticut nonfarm job estimates for June 2019 from the business payroll survey administered by the U.S. Bureau of Labor Statistics (BLS). DOL's Labor Situation report showed the state lost 1,400 net jobs in June, to a level of 1,692,200, seasonally adjusted. In addition, May's originally-released job loss of 1,500 was revised downward by 400 to a loss of 1,900 jobs over the month. With the May and June job losses, employment growth is in negative territory for calendar 2019.
- DOL cited government sector job losses as the primary factor in June's results, especially among local government entities. Changes in school calendars and the timing of summer employment may have had an impact for seasonal adjustments for employment. DOL noted this should become clearer in next month's results.





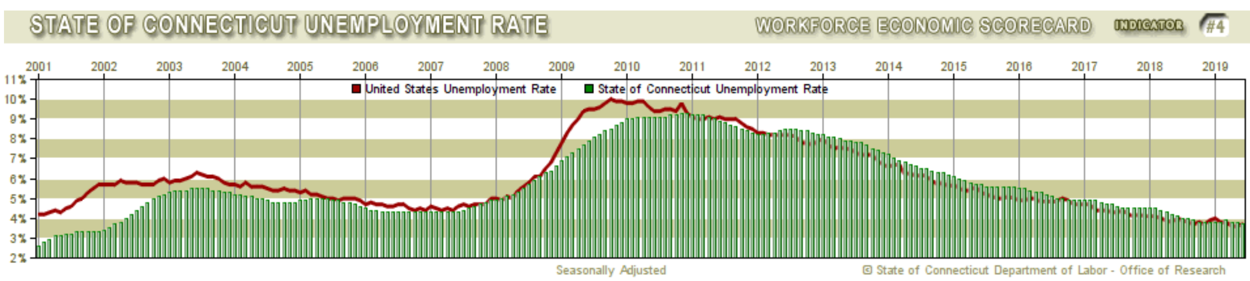
- Over the year, DOL reported that nonagricultural employment in the state grew by 4,000 jobs on a seasonally-adjusted basis. Connecticut has now recovered 79.3 percent (95,400 payroll job additions) of the 119,100 seasonally adjusted jobs lost in the Great Recession (3/08-2/10). As of June, the job recovery was into its 112th month and the state needed an additional 24,900 new net jobs to reach an overall employment expansion.

Connecticut's Recessionary Job Loss and Recovery March 2008 - June 2019

	March 2008	January 2010	June 2019	Jobs Lost	Recovered	
					Jobs	Percent
CT Nonfarm Employment	1,717.1	1,596.8	1,692.2	-120.3	95.4	79.3%
Total Private Sector	1,457.4	1,345.4	1,458.5	-112.0	113.1	101.0%

* March 2008 was employment peak. January 2010 was employment trough. Last Updated:July 18, 2019

- Connecticut's unemployment rate stood at 3.7 percent in June, down one-tenth of a point from the revised May figure and down four-tenths of a point from a year ago when it was 4.1 percent. Nationally, the unemployment rate was 3.7 percent in June 2019, up one-tenth of a point from May's revised estimate. The chart below shows a comparison of the Connecticut and U.S. unemployment rates since 2001.



- Among the job major sectors listed below, five experienced gains and five had losses in June 2019 versus June 2018 levels. Information, leisure & hospitality, and education & health services were the fastest growing sectors in the state's labor market on a percentage basis. The other services, construction, and trade, transportation & utilities sectors experienced the largest job losses.

Payroll Employment Trend				
June 2019 Versus June 2018				
Sector	**June 2019 (P)**	**June 2018**	**Gain/Loss**	**% Change**
Construction and Mining	57,900	58,900	-1,000	-1.7%
Manufacturing	160,700	160,400	300	0.2%
Trade, Transportation & Utilities	293,700	297,400	-3,700	-1.2%
Information	32,600	31,700	900	2.8%
Financial Activities	128,000	125,800	2,200	1.7%
Professional & Business Services	220,100	220,800	-700	-0.3%
Education & Health Services	340,700	334,100	6,600	2.0%
Leisure & Hospitality	161,500	157,800	3,700	2.3%
Other Services	63,300	65,600	-2,300	-3.5%
Government	233,700	235,700	-2,000	-0.8%
Total Connecticut Non-Farm Employment	**1,692,200**	**1,688,200**	**4,000**	**0.2%**

Wage and Salary income

- June 2019 average hourly earnings at $32.77, not seasonally adjusted, were up $1.36 or 4.3%, from the June 2018 estimate. The resultant average private sector weekly pay amounted to $1,110.90, up $52.38 or 4.9 percent higher than a year ago. However, DOL warns that due to fluctuating sample responses, private sector earnings and hours estimates can be volatile from month-to-month.
- The 12-month percent change in the Consumer Price Index for All Urban Consumers (CPI-U, U.S. City Average, not seasonally adjusted) in June was a modest 1.6 percent.

Housing

- Berkshire Hathaway HomeServices reported results for the Connecticut housing market for June 2019 compared with June 2018. Sales of single-family homes fell 11.9 percent and the median sale price increased slightly, by 0.87 percent.
- New listings were down 4.57 percent in Connecticut, while the median list price rose by a modest 1.39 percent to $299,000 compared with $294,900 a year ago.
- Average days on the market decreased 19.51 percent in June 2019 compared to the same month in the previous year (66 days on average, down from 82 days).
- Finally, the list to sell price remained steady, rising slightly to 97.9 percent from 97.8 percent a year ago.
- The table below contains more detailed data for the Connecticut housing market.

MARKET SUMMARY

JUNE 2019 | SINGLE FAMILY HOMES

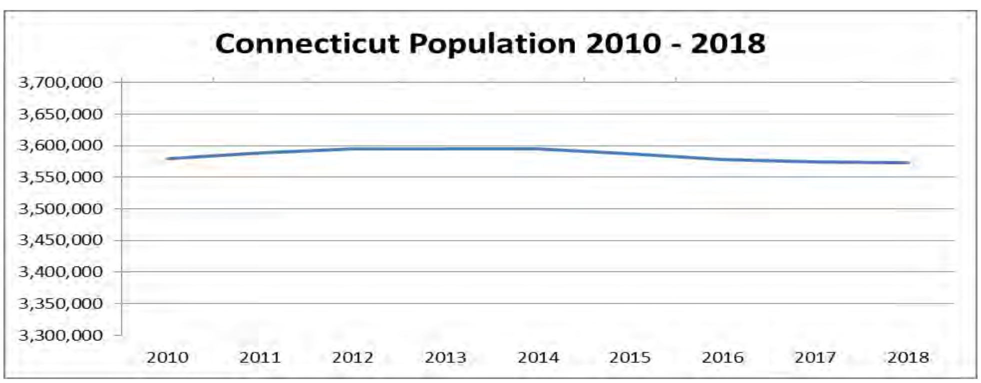
Market	Month to Date			Year to Date		
Summary	June 2019	June 2018	Percent Change	Year-To-Date 2019	Year-To-Date 2018	Percent Change
New Listings	5426	5686	-4.57%	31025	31462	-1.39%
Sold Listings	3745	4251	-11.9%	16183	16646	-2.78%
Median Listing Price	$299,000	$294,900	1.39%	$269,500	$266,000	1.32%
Median Selling Price	$290,000	$287,500	0.87%	$262,500	$260,000	0.96%
Median Days on Market	42	59	-28.81%	57	66	-13.64%
Average Listing Price	$423,116	$425,315	-0.52%	$387,950	$398,013	-2.53%
Average Selling Price	$409,707	$411,652	-0.47%	$372,989	$383,047	-2.63%
Average Days on Market	66	82	-19.51%	82	94	-12.77%
List/Sell Price Ratio	97.9%	97.8%	0.06%	97.5%	97.3%	0.13%

- For the U.S. housing market, existing-home sales declined in June after rising the month before, according to the National Association of Realtors (NAR). June sales were down 1.7 percent from May to a seasonally adjusted annual rate of 5.27 million. There was a split in the regional results for the month with sales rising slightly in the Northeast and Midwest but decreasing in the South and West regions. Sales in all regions were still lower compared to one year ago, with the most significant declines in the Northeast and West. Median home prices rose in all regions, with the highest gains in the Midwest and South.

- According to NAR, the median existing-home price for all housing types in June reached an all-time high of $285,700, up 4.3 percent from June 2018 ($273,800). June's price increase marks the 88th straight month of year-over-year gains. Total housing inventory at the end of June increased to 1.93 million, up from 1.91 million existing-homes available for sale in May, but unchanged from the level of one year ago. Unsold inventory is at a 4.4-month supply at the current sales pace, up from the 4.3 month supply recorded in both May and in June 2018.
- Properties typically remained on the market for 27 days in June, up from 26 days in May and in June of 2018. Fifty-six percent of homes sold in June were on the market for less than a month.

Population

- On Dec. 19, 2018, the U.S. Bureau of the Census released its population estimates for July 1, 2018. Connecticut's population declined slightly between 2017 and 2018 and now stands at 3,572,665. This represents a decrease of 0.03% from the prior year's estimate. Over the longer term, Connecticut's population is smaller than it was eight years ago. While the decline is small (approximately 6,500), Connecticut is one of only three states to lose population since the 2010 Census.



- Connecticut's demographic trends can have an impact on the state's economy. As the baby boom generation continues to retire and leave the workforce, both economic demand and output could be further reduced. In short, Connecticut's lack of population growth remains a constraint to the state's potential for economic expansion.

The Age Composition of Connecticut's Workforce

- In its July 2019 issue of *The Connecticut Economic Digest*, the DOL looked at age trends of Connecticut's workforce by industry in an article by economist Matthew Krzyzek.
- In general terms, Connecticut's workforce is aging. Using Census data, DOL compared three age cohorts over a 20-year period, from 1998 to 2018. Over that period, there was a decline in the proportion of the workforce under age 25 and between the ages of 25 to 54. (This latter cohort, between 25 and 54 years old, is also known as the "prime age" group.) At the same time, proportion of the workforce over age 54 has grown steadily, almost doubling from 14 percent in 1998 to 27 percent in 2018.

Figure 1 - Age Composition of Connecticut Employment: 1998Q3-2018Q3

Year Ending		Ann. Average Emp. By Age Cohort				Percent Share of Employment			
		All	Under 25	Prime	Over 54	All	Under 25	Prime	Over 54
20 years ago	1998Q3	1,585,349	199,323	1,167,946	218,081	100%	13%	74%	14%
Peak Year	2008Q4	1,661,266	215,419	1,109,884	335,963	100%	13%	67%	20%
Current	2018Q3	1,644,118	188,550	1,019,775	435,792	100%	11%	62%	27%

Source: US Census Bureau, QWI

- DOL notes that Connecticut has a highly skilled and experienced workforce, 42 percent of which have at least a college degree compared to 37 percent nationally. However, the increasing portion of older workers also indicates that a large share of the workforce is approaching retirement age, heightening the need for replacement workers in coming decades.

The article explored demographic shifts by industry, including the following trends:

- The sectors with largest percentage of workers under 25 are Accommodation & Food Services, Arts, Entertainment & Recreation, and Retail Trade.

- The sectors with the largest concentrations of prime age workers are Finance & Insurance (69.6%), Professional, Scientific, & Technical Services (68.5%) and Information (67.8%).

- Large sectors with significant over 54 employment shares include Manufacturing, (35.4%) which had an 11.0 point increase in the past ten years and Educational Services (30.8%).

- With more than 35% of its workforce over age 54, manufacturing will need to hire many replacement workers in addition to filling the new jobs that are expected to be added in the short term.

- In summary, knowing which industries have a large share of highly experienced workers is important to ensure that an adequate pipeline exists to help train incoming workers to replace those who will eventually retire.

- The full article can be found at the following link: https://www1.ctdol.state.ct.us/lmi/digest/pdfs/cedjul19.pdf

Stock Market – Touching Historic Highs in July:

- After significant declines in December and a volatile close to calendar year 2018, the major stock market indices had generally been recovering ground steadily through April 2019. In mid-May, however, the markets turned downward and volatility returned as trade tensions escalated between the United States and China.
- In June and July, the markets have shown resilience and trended back upward with all three major indices touching historic highs. Investors are hoping the Fed will cut interest rates in the near future as a means of sustaining economic momentum. To date, threats of military confrontation in the Middle East have not had a significant impact on the markets.
- Stock market activity for the past year is illustrated on the three charts that follow:

DOW

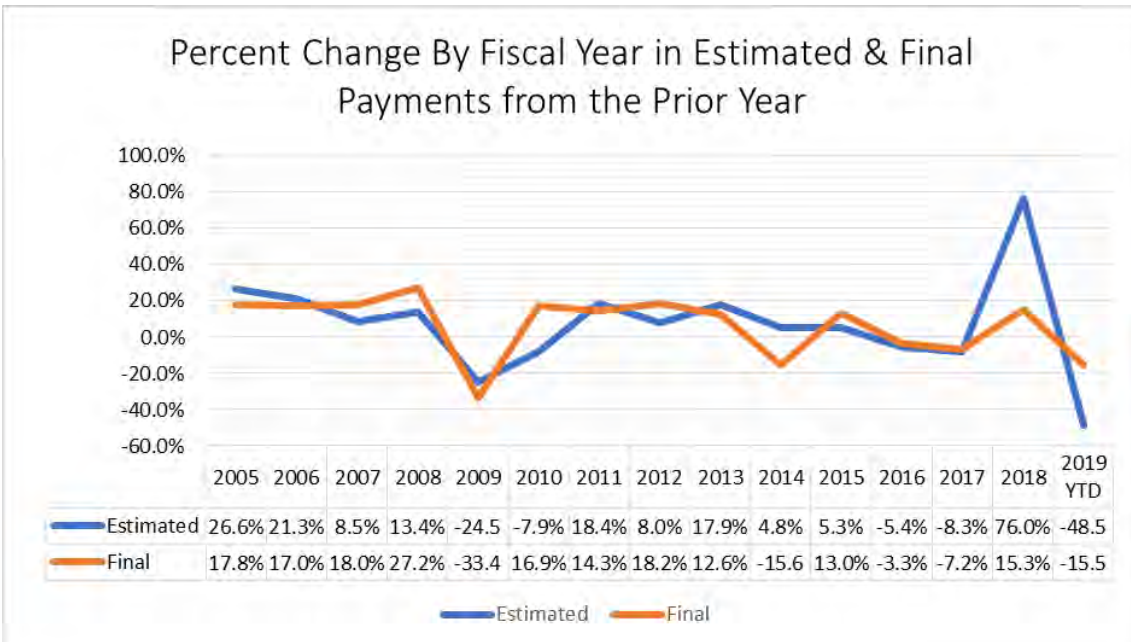
NASDAQ

S&P 500 INDEX

- The performance of the stock market has a significant impact on the State of Connecticut's revenues. In a typical year, estimated and final income tax payments account for approximately 35 to 40 percent of total state income tax receipts, but can be an extremely volatile revenue source. For example, both estimated and final payments had negative growth rates in Fiscal Years 2016 and 2017.
- In contrast, both categories experienced strong positive growth in FY 2018, partly due to changes in federal tax provisions. FY 2018 year-end results showed estimated payments

growing by 76 percent fiscal year-to-date compared with the prior year, representing an increase of over $1.2 billion. Final payments grew by $239 million or 15.3 percent over the same period a year ago.

- State estimated payment collections were down significantly in December 2018 compared with recent years. This is likely due to the change in incentives related to the limits to the SALT deduction for Federal tax purposes. Due to the strict Federal limits, high-income taxpayers have little incentive to make payments before year-end.



- Through June, combined collections of estimated and final payments were 35.7 percent lower than the same period a year ago. At the same time, OPM increased its estimate this month by $40 million for collections of estimated and final payments, bringing the projected collection total above the budget target for the year. In addition, other tax categories, specifically the new Pass-Through Entity (PET) tax on partnerships and S Corporations continues to outperform the budget plan. The most recent forecast raised revenue projections for this category by another $5 million, which represents $565 million over the initial budget target.

Consumer Spending

- Consumer spending is the main engine of the U.S. economy, accounting for more than two-thirds of total economic output.

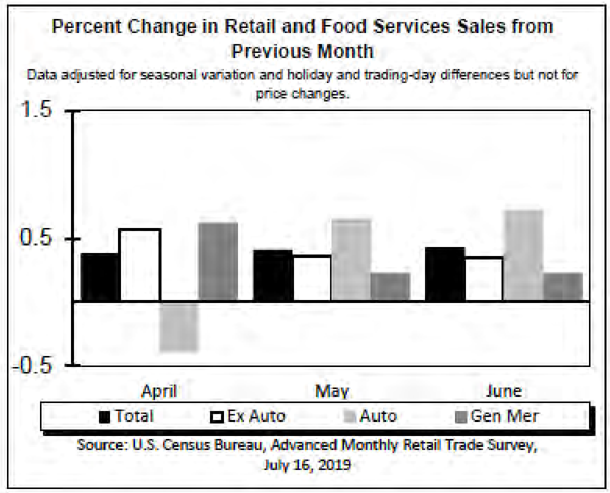
- The Commerce Department reported that U.S. advance retail sales increased 0.4 percent in June 2019, while May's results were revised slightly downward, rising 0.4 percent instead of the initial 0.5 percent. These results were better than expected. Economists polled by Reuters had forecasted retail sales growing only 0.1 percent in June.

ADVANCE MONTHLY SALES

June 2019	$519.9 billion	0.4%*
May 2019 (revised)	$517.7 billion	0.4%

Next release: August 15, 2019

* The 90 percent confidence interval includes zero. There is insufficient statistical evidence to conclude that the actual change is different from zero.
Data adjusted for seasonal variation and holiday and trading-day differences but not for price changes. Source: U.S. Census Bureau, Advanced Monthly Retail Trade Survey, July 16, 2019.

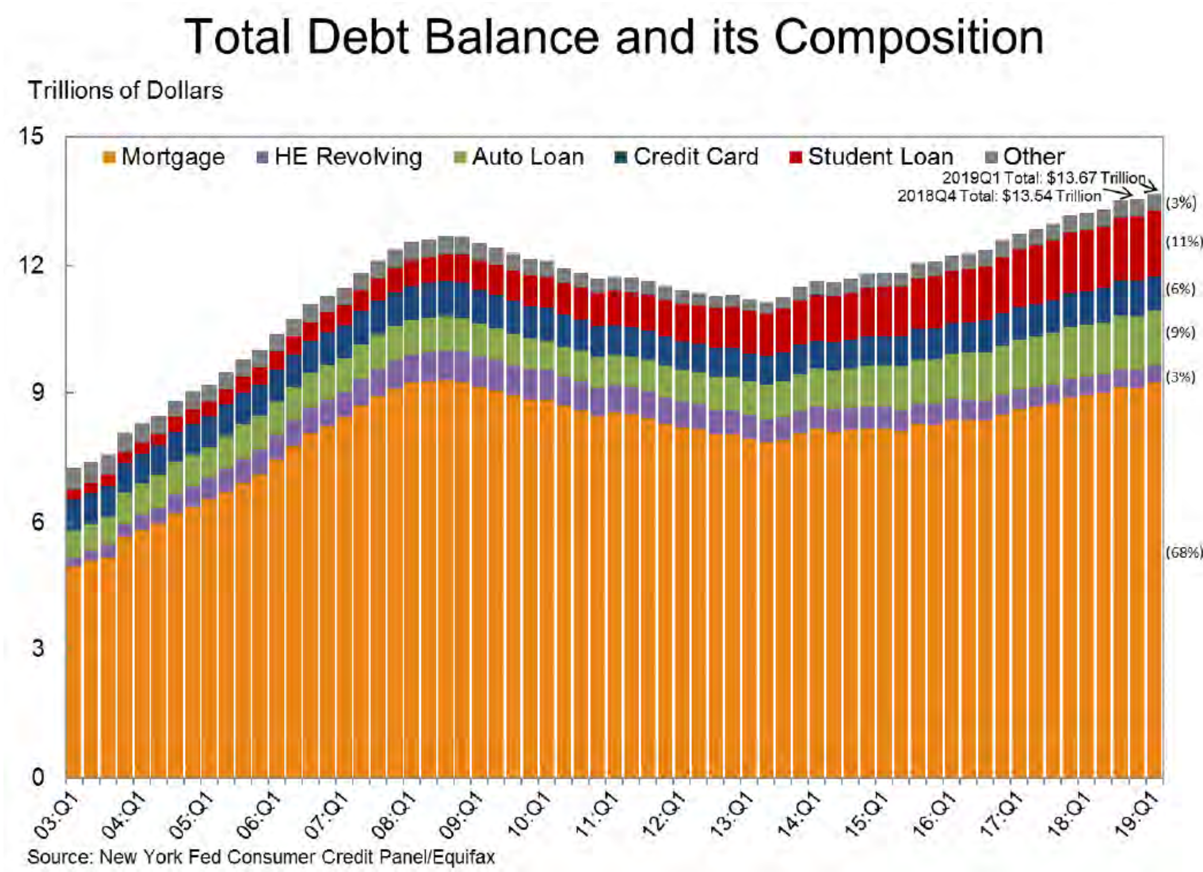


- Increases in retail sales were broad-based in June. Auto sales increased 0.7 percent in June following similar growth in May. Sales at building supply stores and clothing stores rose 0.5 percent in June. Receipts at furniture, grocery and health care supply stores also grew 0.5 percent over May's results, while food and drinking establishments jumped 0.9 percent. Sales at non-store retailers surged 1.7 percent.
- On the down side, receipts at gas stations were down 2.8 percent in June, reflecting lower fuel prices. Sales at electronics and appliance stores decreased 0.3 percent in June, after rising 1.1 percent in May.
- So called "core retail sales" rose 0.7 percent in June, after growing a revised 0.6 percent in May. This category excludes automobiles, gasoline, building materials and food services and corresponds most closely with the consumer spending component of gross domestic product.
- Consumer spending grew at its slowest pace in a year in the first quarter. However, analysts noted that strong consumer spending in the second quarter could help to blunt some of the economic impact from weak business investment.

Consumer Debt and Savings Rates

- According to the Federal Reserve Bank of New York, aggregate household debt balances rose to another new peak in the first quarter of 2019. Household debt has now grown in 19 consecutive quarters. As of March 31, 2019, overall debt – including mortgages, auto loans, student loans and credit card debt – hit a record of $13.67 trillion. This represented an increase of $124 billion (0.9%) from the fourth quarter of 2018. In addition, overall household debt is now 22.5% above the post-financial-crisis trough (low point) reached during the second quarter of 2013.

- The report titled "Quarterly Report on Household Debt and Credit" noted mortgage balances – the largest component of household debt – stood at $9.2 trillion during the fourth quarter, a $120 billion increase from the fourth quarter of 2018. At $1.49 trillion, student loans were the second largest category of household debt. Student loan balances grew by $29 billion in the first quarter of 2019. Balances on home equity lines of credit (HELOC), continuing their downward trend since 2009, declined by $6 billion to $406 billion. Auto loans grew by $6 billion in the first quarter, while credit card balances decreased by $22 billion.



- The Federal Reserve reported that aggregate delinquency rates remained steady in the first quarter of 2019. As of March 31, 4.6 percent of outstanding debt was in some stage of delinquency, a slight reduction from the fourth quarter of 2018. Of the $623 billion of debt that is delinquent, $417 billion is seriously delinquent (at least 90 days late). The flow into 90+ day delinquency for credit card balances has been rising since 2017, while the flow into 90+ day delinquency for auto loan balances has been slowly trending upward since 2012. A total of 10.9 percent of aggregate student debt was 90+ days delinquent, which the Federal Reserve noted was a high level compared with other types of household debt.

- An update for the second quarter of the year will be released in August 2019.

<u>Personal Savings Rate</u>

- In its July 30 release, the Bureau of Economic Analysis (BEA) reported the personal-saving rate was 8.1 percent in June 2019, up from May's revised rate of 8.0 percent. However, this represents a step back from 8.8 percent as recently as February. The personal savings rate is defined as personal saving as a percentage of disposable personal income. BEA noted the personal income and savings estimates reflected the results of the Annual Update of the National Income and Product Accounts (NIPAs). The update covers the period of January of 2014 through May of 2019.

- The personal savings rate remains low by historical standards. A number of economists see the general decline in the personal savings rate as a red flag as consumers borrow more to fuel spending. In recent years, wage gains have been concentrated on the upper end of the income scale. This will leave little margin for error in case of a downturn, especially for families who are living from paycheck to paycheck.

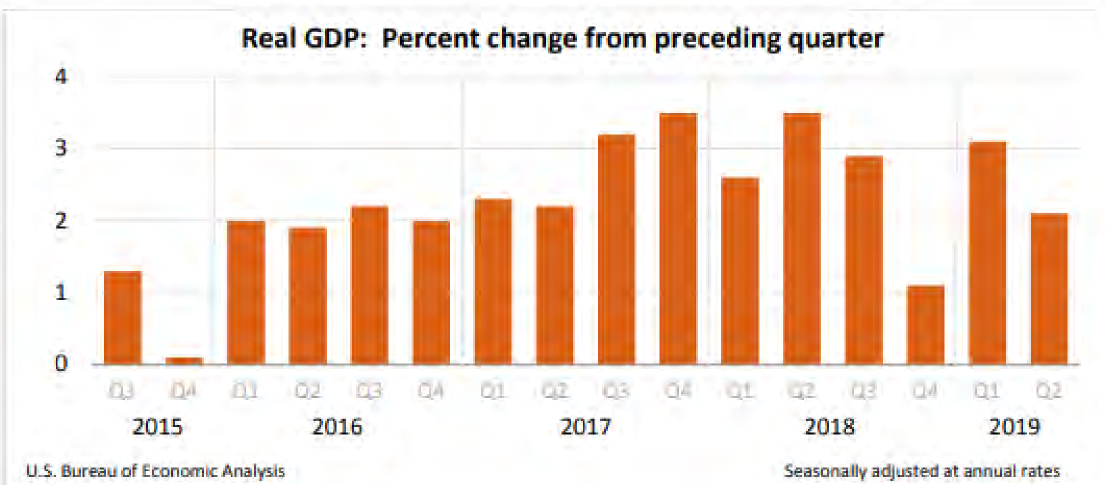
<u>Consumer Confidence</u>

- The U.S. consumer confidence index (CCI) is published by the Conference Board. The CCI looks at U.S. consumer's views of current economic conditions and their expectations for the next six months. The index is closely watched by economists because consumer spending accounts nearly 70 percent of U.S. economic activity.
- The Conference Board reported that the Consumer Confidence Index rose significantly in July, following a decrease in June. The Index now stands at 135.7 up from 124.3 in June.
- According to the Conference Board, the sharp decline in June was driven by an escalation in trade and tariff tensions. However, consumer confidence rebounded in

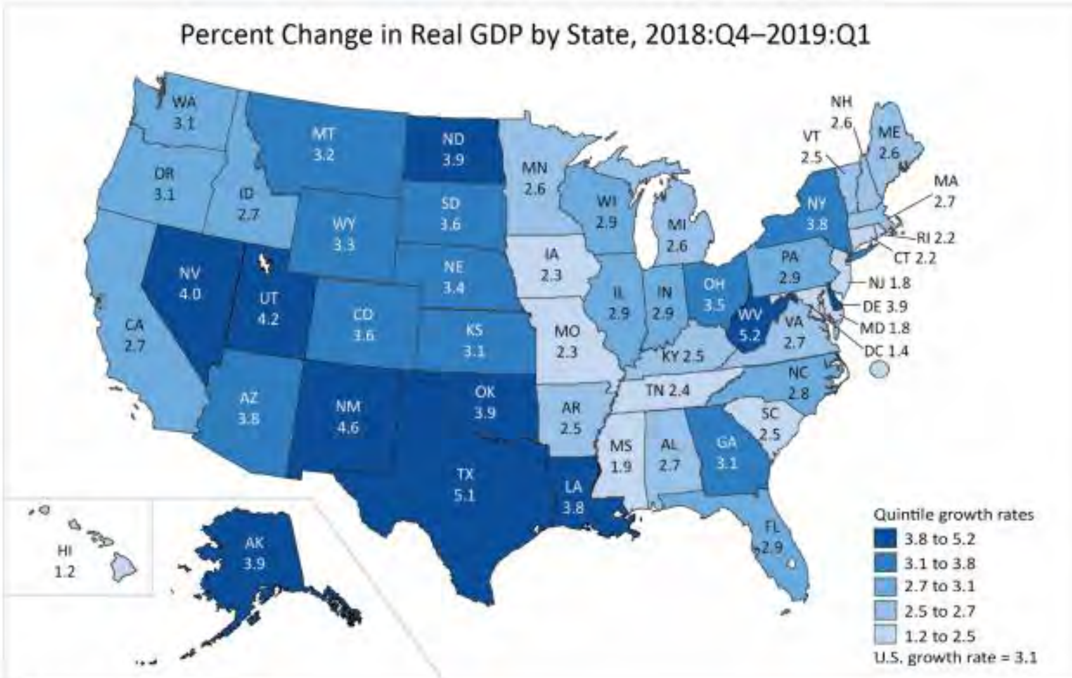
July to its highest level this year. These high levels of confidence should continue to support robust spending in the near-term despite slower growth in GDP.

Business and Economic Growth

- According to a July 26 report from the Bureau of Economic Analysis (BEA), U.S. Real Gross Domestic Product grew at an annual rate of 2.1 percent in the second quarter of 2019, based on BEA's "advance" estimate. This represented a slow-down in growth from the first quarter of 2019, when real GDP increased 3.1 percent. Gross domestic product represents the value of all goods and services produced in the U.S. for the period.
- Consumer and government spending drove the increase in GDP, while a decrease in business investment and a weak housing market slowed down growth for the quarter. Exports also declined as trade disputes between the U.S. and China remain unresolved.



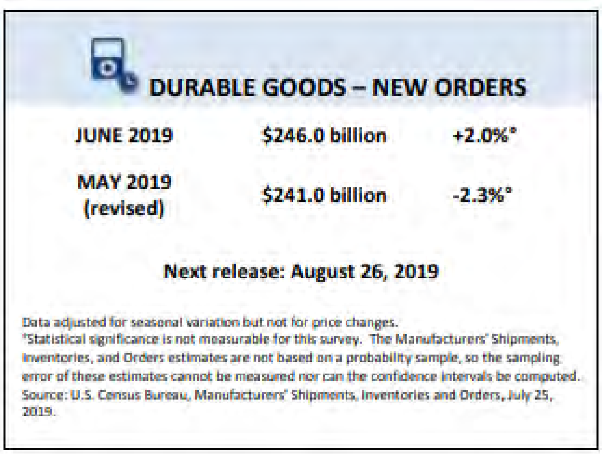
- In a July 25 report, the Bureau of Economic Analysis (BEA) released Real Gross Domestic Product (GDP) results by state for the first quarter of 2019. Connecticut experienced a seasonally adjusted annual growth rate of 2.2 percent, which ranked 45th in the nation overall. This growth rate was below both the national average of 3.1 percent and the New England regional average of 2.5 percent. The percent change in real GDP in the first quarter ranged from 5.2 percent in West Virginia to 1.2 percent in Hawaii.
- The sectors that contributed most to Connecticut's GDP growth in the first quarter of 2019 were finance & insurance, health care & social assistance and retail trade.

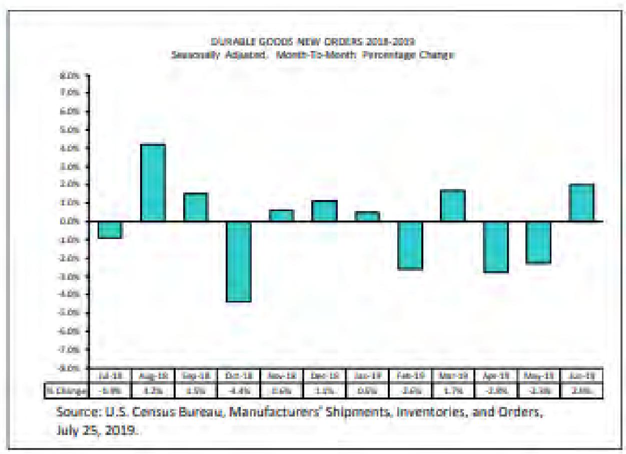


U.S. Bureau of Economic Analysis

Durable Goods

- According to a July 25 report by the U.S. Department of Commerce, new orders for manufactured durable goods increased $4.9 billion in June, up 2.0 percent to $246.0 billion. This rebound came after two consecutive months of declines, a 2.3 percent drop in May and an even bigger 2.8 percent decrease in April.





- The increase was largely driven by the volatile transportation equipment category. New orders of non-defense aircraft jumped 75.5 percent in June, after experiencing significant declines in May and April. Orders for motor vehicles and parts increased 3.1 percent, the biggest growth since July 2018.
- Orders for so-called core capital goods increased 1.9 percent last month. This category includes non-defense capital goods excluding aircraft and is widely viewed as a proxy for business investment. Analysts reported that this was the best performance since February 2019.

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